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# AUDIT NEWSLETTER 2000

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City of Tucson - Audit Division (520) 791-4681 Fax (520) 791-4344

December 2000

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Topics listed below are new items or problem areas found during audits. Please check with the State of Arizona for compliance to State law.

## **Joint Audit, Guidelines, and Hearing Office.**

Senate Bill 1513 became effective on July 18, 2000, and changes how Transaction Privilege Tax audits are conducted. The following is an overview of the bill:

A.R.S. §42-6005 establishes that when the Arizona Department of Revenue or a City/Town conducts an audit of a taxpayer, the audit will include an audit for any Arizona jurisdiction (municipality) in which the taxpayer does business. An audit conducted for multiple jurisdictions is known as a "joint audit".

A joint audit will allow the taxpayer to have one audit for all taxing jurisdictions in which the taxpayer conducts business.

A taxpayer will have the option of declining a joint audit. If the taxpayer declines to allow a joint audit, the taxpayer will be subject to an audit by the other jurisdiction(s) at any time. A City/Town may also decline to participate in a joint audit; however, the City/Town that declines will not be able to conduct an audit on the taxpayer for 42 months.

The Unified Audit Committee shall publish uniform guidelines that interpret the Model City Tax Code and the Guidelines shall apply to all cities and towns that have adopted the Model City Tax Code. When the Arizona Revised Statutes and Model City Tax Code are the same and the Department of Revenue has issued written guidance, the Department's interpretation is binding on the cities and towns. (The Committee is working on issuing the guidelines.)

Beginning July 1, 2001, a Municipal Tax Hearing Office is to be established under A.R.S. §42-6056. The hearing office will hear all reviews of petitions for hearing or redetermination under the Model City Tax Code for cities and towns not in the state collection system. The hearing office will also hear appeals from audits conducted by a city/town in the state collection system, if the audit was conducted by a city's/town's independent auditor.

A.R.S. §42-6003 is modified. If cities and towns cannot resolve a dispute regarding the taxable jurisdiction, the issue may be submitted to the Municipal Tax Code Commission. Previously, these disputes were submitted to the State Board of Tax Appeals. A decision made by the Municipal Tax Code Commission

may then be appealed to the State Board of Tax Appeals within thirty days after notice of the decision has been received by the cities.

(Adapted from Arizona TaxNews, May 2000)

## **RENTAL - REAL PROPERTY**

### **TAX ON REAL PROPERTY**

The Tucson tax rate on income from non-residential real property rental is two percent (2%). The State of Arizona does not tax this activity. Do you personally lease property to "your" corporation? If so, it is taxable. Extra charges for cleaning, common area maintenance, forfeited security deposits, late payment charges, and utilities (that are not separately metered) are all taxable. Real property taxes paid to the Pima County Treasurer by the tenant regardless if paid directly to Pima County or to the landlord are part of taxable income. Failure to report this income has resulted in assessment of tax and interest. Rentals to all governmental entities (except Davis Monthan Air Force Base) are taxable. Rentals to all non-profits are taxable except to non-profit primary healthcare facilities that provide the landlord with annual exemption letters from the Arizona Department of Revenue and the City of Tucson. We have a brochure we can send you regarding real property rentals. Just call us at 791-4681 and ask for the "real property brochure".

## **RETAIL**

### **Sales to the United States Government – Credit Cards**

The Federal Government issues some government employees a credit card that contains a statement that the cardholder is not subject to tax. This statement is not applicable to the City of Tucson Business Privilege Tax. Because the tax is on the business and not on the government, the business is liable for the tax on sales to the U.S. or any government. The governments generally pay the passed on tax (cost). The City of Tucson exempts 50% of the sales to the United States Government. Sales directly to the U.S. Government are not taxable when made by a manufacturer, modifier, assembler or repairer of a product. Sales to or on Davis Monthan Air Force Base are exempt from the Tucson tax.

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## **NEWSPAPERS**

Newspapers sold by a retailer to a consumer are subject to tax. Prices charged (i.e. 35 or 50 cents, \$1.50 on Sundays) can include the applicable state and city taxes (currently 7%). Few, if any, retailers add tax to the preprinted prices as compared to factoring tax. Some retailers have not been remitting tax on income from newspaper sales. This has resulted in tax, interest, and penalty being assessed.

Please make sure your business is reporting this income. You will be surprised how quickly the tax liability will mount up if this item is overlooked when remitting your monthly taxes.

## **RESALES HANDLED THE SAME REGARDLESS OF CUSTOMER SITE**

The documentation you should obtain at the time of a resale transaction is the same whether your customer is from any state, Canada, Mexico, or other foreign country. You must obtain their business name and full address. Always get a statement from the buyer that the items being purchased are to be resold in the buyer's ordinary course of business. Be reasonably prudent and act in good faith that the claim is valid. Obtaining business license numbers issued by the state and local government is helpful. Just getting a license number does not make the transaction exempt. A properly completed Arizona Department of Revenue resale form is acceptable to the City of Tucson.

## **CUSTOMERS LIVE OUTSIDE ARIZONA?**

If the customer is on your premises or places the order from anywhere within Arizona, even if they are a non-resident, the order is a taxable local sale. To exempt sales to non-residents, you must receive the order across state lines, **AND** you must ship the goods to your customer out of state (documentation of both is required). For shipments to Mexican Nationals, you may choose to ship goods to a Custom Broker in Arizona (an acceptable method) who will then transport the goods across the Mexico/U.S. border. Shipments to anyone within Arizona, regardless of where they live, are taxable. This includes shipments to Canadians or Mexican Nationals when shipped to any point within Arizona. Motor vehicle dealers have just one requirement of delivering the vehicle out of state.

## **Sell Cigarettes? Own an ATM? Need a license?**

If you sell cigarettes, you are required to obtain a regulatory license that costs \$100 per year. An owner of an ATM is required to obtain an Occupational License. Please contact the License Section at (520)791-4566 for licensing assistance.

## **DO YOU HAVE TAX QUESTIONS?**

If you have tax questions, please call 791-4681, Monday through Friday from 8 a.m. until 5 p.m. If you would like to receive a written response to your questions regarding unusual transactions, send your **detailed** explanation of the transaction to:

Revenue Administrator  
City of Tucson  
PO Box 27210  
Tucson, AZ 85726-7210

## **WEB PAGE: [www.ci.tucson.az.us](http://www.ci.tucson.az.us)**

This is the City of Tucson's home page. Explore the many interesting and informative pages for departments and other items.

You can access the **Business Privilege (Sales) Tax Code** from at least two city departments, Finance and City Clerk's Office. From the home page, access "Departments" and "click" on Finance Department ([www.ci.tucson.az.us/finance/](http://www.ci.tucson.az.us/finance/)). You will also find the Occupational License Tax Code Sections, Tax Information Brochures, Newsletters, Business Privilege Tax Return Forms, 17 Step-Business License Process, and other information and guides.

## **TAX SEMINARS**

Seminars with emphasis towards licensing and reporting requirements are given on the dates and at the locations listed below. ADOR will also be speaking. Questions are welcome.

|                              |                               |
|------------------------------|-------------------------------|
| 9:15 AM - 12:15 PM           | 9:00 AM - 12:00 PM            |
| <b>Wilmot Library</b>        | <b>Main Library</b>           |
| <u>530 North Wilmot Road</u> | <u>101 North Stone Avenue</u> |
| February 8, 2001             | March 8, 2001                 |
| May 10, 2001                 | July 12, 2001                 |
| September 13, 2001           | November 8, 2001              |

These presentations are free. Please call us at 791-4681 to register. We will ask for your name and for how many will be attending (needed for seating and material planning).